

## Message Text

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ACTION EB-07

INFO OCT-01 EA-06 NEA-06 ISO-00 AGR-05 CIAE-00 COME-00

INR-05 LAB-01 NSAE-00 RSC-01 SP-02 STR-01 TRSE-00

SWF-01 CIEP-01 FRB-01 OMB-01 PA-01 USIA-06 PRS-01

OES-03 INT-05 AID-05 L-02 /062 W  
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R 200715Z NOV 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5367

INFO AMCONSUL HONG KONG

AMCONSUL KARACHI

USLO PEKING

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: EPAP ECON

SUBJ: RECESSION HITS SOME INDONESIAN INDUSTRY

REF: JAKARTA 13819

1. BEGIN UNCLASSIFIED: SUMMARY: IN FIRST OF PROBABLE  
SERIES OF STEPS TO RELIEVE DOMESTIC INDUSTRIES HIT BY  
RECESSION ABROAD AND RISING PRODUCTION COSTS, GOI ANNOUNCED  
DECISIONS TO RESTRICT TEXTILE IMPORTS, TO MAKE GOVERNMENT SOLE  
IMPORTER OF YARN AND TO GIVE LIMITED SUBSIDY TO SPINNING MILLS  
FOR COTTON IMPORTS. END SUMMARY.

2. LAST WEEK INDONESIA ANNOUNCED REDUCED SUBSIDIES FOR SUGAR  
(REFTEL) BUT ALSO NEW SUBSIDY FOR COTTON IMPORTS. THESE  
DECISIONS REFLECT CONFLICTING IMPACT OF WORLD MARKET CONDITIONS  
ON INDONESIAN INDUSTRIES. WHILE INDONESIA'S FOOD AND ENERGY  
MARKETS BOOM, TEXTILE, TIMBER, CRUMB RUBBER, AND HANDICRAFTS  
COMPLAIN LOUDLY OF DEPRESSED MARKETS. TIMBER AND RUBBER  
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EXPORT PRICES AND MARKET DEMAND HAVE FALLEN SOME 30 TO 50

PERCENT SINCE LATE 1973. TEXTILE PRODUCTION SUFFERS, ACCORDING TO INDUSTRY SOURCES, FROM DUMPING OF HONG KONG, JAPANESE, PAKISTAN AND COMMUNIST CHINESE TEXTILES AND YARN, RESULTING IN SHARP DECLINE OF DOMESTIC MILL SALES. PRODUCERS COMPLAIN OF LOSSES FROM PRODUCTION WITH COTTON IMPORTED AT 90 CENTS PER POUND, COMPETING WITH IMPORTS USING LOWER COST COTTON. RESTRICTIONS ON DOMESTIC CREDIT EXPANSION HAVE COMPLICATED INDUSTRY FINANCING OF RAW MATERIAL IMPORTS AND GROWING FINISHED PRODUCT INVENTORIES.

3. GOVERNMENT POLICY-MAKERS FACE THREE UNHAPPY CHOICES: 1) LETTING MARGINAL PRODUCERS GO OUT OF BUSINESS (HITTING FRAGILE PRIBUMI BUSINESS MOST HEAVILY); 2) SUBSIDIZING RAW MATERIAL IMPORTS; 3) OR EXPANDING CREDIT TO SHAKEY ENTERPRISES DURING PERIOD WHEN POLICY EMPHASIS ON CREDIT RESTRICTION.

4. LAST WEEK GOVERNMENT DECIDED TO ASSIST TEXTILE INDUSTRY BY: A) BAN ON IMPORT OF TEXTILES AND YARN FINANCED BY MERCHANT LETTER OF CREDIT (ESSENTIALLY OFF-SHORE FINANCING); B) ONE TIME SUBSIDY FOR PAST IMPORTS OF HIGH-PRICED (90 CENTS PER POUND) COTTON. (THE GOVERNMENT ANNOUNCED THAT FIRMS REQUIRING RELIEF BEYOND SUBSIDY CAN MEET NEEDS BY OBTAINING BANK CREDITS.); C) GOVERNMENT ACTION AS SOLE IMPORTER OF COTTON AND YARN, WITH OBJECTIVE OF BUILDING UP "NATIONAL STOCK" TO BE USED FOR MARKET PRICE STABILIZATION; D) LIMITATION OF CREDIT TO TEXTILE SECTOR TO "SUPPORT OF PRODUCTION", PROHIBITING ITS USE FOR IMPORTING TEXTILES. END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE  
BI OFFICIAL INFORMED US COTTON SUBSIDY INVOLVES RP 10 BILLION (\$24 MILLION). THIS REPRESENTS 16 PERCENT OF CURRENT YEAR COTTON IMPORT VALUE. GOI WILL MAKE REBATES TO MILLS PURCHASING COTTON WHICH BULOG BOUGHT AT PEAK PRICES EARLIER UNDER PL 480 AND OTHER AID PROGRAMS.

6. BI STUDY CONCLUDES THAT MAJOR MILLS GENERALLY IN SATISFACTORY FINANCIAL CONDITION AND NOT MUCH CREDIT RELIEF REQUIRED. CHIEF CRIES MAINLY EMINATE FROM TRADERS CAUGHT WITH HEAVY STOCKS. HOWEVER BI ALSO FOUND DISTURBING EVIDENCE THAT JAPANESE SUPPLIERS USE UNORTHODOX TECHNIQUES  
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TO PROTECT THEIR CREDITS TO MILLS FOR TEXTILE MACHINERY AND SUPPLIES. IN SOME INSTANCES THEY LITERALLY PLACE JAPANESE COMPANY REP WITHIN MANAGEMENT OF INDONESIAN COMPANY TO DICTATE DECISIONS ON SALES, SIZE OF REPAYMENTS, ETC. IF MILLS UNABLE TO MEET PAYMENTS JAPANESE ALLEGEDLY REQUIRED OWNERS TO SELL EQUITY TO DESIGNATED JAPANESE COMPANIES OPERATING IN INDONESIA IN SOME CASES.

7. IN REVIEWING PROBLEMS WITH TEXTILE INDUSTRY, BI WILL CERTAINLY MEET SOME STRONG COMPLAINTS MADE TO EMBASSY ABOUT ROLE OF DIRECTORATE GENERAL OF TEXTILES. DGT DECISIONS ON COTTON PROCUREMENT MILLS COMPLAIN CONFLICT WITH DELIVERY SCHEDULES, QUALITY AND PRICE BARGAINING AND OTHER KEY ASPECTS OF PURCHASING IN WAYS WHICH COST MILLS HEAVILY. WHILE COMPLAINTS MAY BRING DGT UNDER CLOSER SCRUTINY OF BI AND BAPPENAS WE WOULD BE SURPRISED IF THEY PRODUCE DECISION TO PERMIT DIRECT COTTON PURCHASES ABROAD BY MAJOR MILLS, AS RECOMMENDED BY SOME OWNERS.  
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## Message Attributes

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**Draft Date:** 20 NOV 1974  
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**Disposition Action:** RELEASED  
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**Disposition Date:** 28 MAY 2004  
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